Taxes and Trees:
The Impact of the 2001 Tax Reform Act on Forestry

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The year 2001 was an important year financially for the American economy. The federal government had a large budget surplus and celebrated with a large tax cut. The economy went soft, even before the September 11 attacks, sending interest rates into the cellar. For a while, you could buy a new car with a zero percent interest loan.

Tax Rate Cuts

The tax cuts had a minor short-term impact on forestry investments, but can have a major long-term impact. The key short-term impact of the tax bill is the lowering of ordinary income tax rates. The law created a new bracket of 10% tax rates for low-income families, kept the 15% tax rate as it was, and lowered the higher tax rates by 3 to 4.6% over a five-year period.

For tax year 2001, the tax rates for a married couple filing jointly are as follows:

Income	Rate
$ 0 - $12,000	10%
$ 12,000 - 43,850	15%
$ 43,850 - 105,950	27.5%
$105,950 - 161,450	30.5%
$161,450 - 288,350	35.5%
Over $288,350	39.1%

For tax year 2002, the rates for incomes over $43,850 will drop an additional half percent with another drop in 2004 and 2006.

Capital Gains Treatment

The major income tax benefit for forestry is the capital gains treatment for timber sale income. The capital gains system was revised in 1998 and the latest bill made no changes. The basic concept is that timber sales are taxed, not on the total income, but on the "profit" or gain from the sale. In calculating capital gains, a taxpayer takes the sale income and deducts his/her selling costs and the "cost of goods sold" or *basis* of the timber. The taxpayer than pays a reduced tax on that profit.

The first deduction is for selling costs, which include any expenses paid by the landowner to prepare, conduct, and repair a timber sale. These include fees for a consulting forester; surveying; marking property lines; fixing roads, bridges and gates; pre-sale preparation (prescribed burning before marking); and after-sale clean-up of the site. Selling costs form a dollar-for-dollar reduction in sale proceeds.

"Basis" is the cost of the trees that were sold. The original basis is the cost of the property when it was bought, or its fair market value when it was inherited. The basis is allocated between the land, the timber, and any buildings or improvements, based on their relative values at the time the property was acquired. The basis can be increased through capital investments, such as tree planting and timber stand improvement, and can be reduced by partial sales, thinning, and casualty losses.

Capitol Gain

The capital gain is the sale price, less the selling cost, less the adjusted basis. The tax rate is based on how long the property has been owned by the taxpayer. If the taxpayer is in the 15% tax bracket, and the property is owned for more than twelve months, the capital gains tax rate is 10%. If the property is held for more than five years, the rate drops to 8%.

If the taxpayer is in the 27.5% or higher tax brackets and the property is owned for more than twelve months, the capital gains tax rate is 20%. For any property acquired (or trees planted) **after January 1, 2001**, and held for more than five years, the capital gains tax rate drops to 18%. Older property acquired before 2001 can only get the 20% tax rate.

Estate Tax Law Changes

The 2001 tax law made major changes in the treatment of property passed down when someone dies. The Federal Estate Tax is imposed on the **value** of all property owned by an individual at death. This is any real or personal property, such as land, timber, stocks, and beanie-babies, as well as life insurance, retirement plan death benefits, debts owed to that person, or any asset over which the person had "effective control."

Estate taxes use a very high tax rate that increases steeply, going from 37% to 55% for tax year 2001. The rates were softened by a "unified tax credit" which reduces the estate tax owed so that estates valued at less than $675,000 in 2001 would pay no estate tax.

The 2001 tax law greatly improved estate tax rules in two ways: increasing the unified tax credit and reducing the top estate tax rates.

For the years 2002 and 2003, the unified tax credit is raised so that estates with values of $1million or less would pay no tax. In 2004, the exemption is raised to $1.5 million and in 2006 it is raised to $2 million, ending up at $3.5 million in 2009. These raises will effectively exempt many families from having to pay any estate taxes.

In addition, the estate tax rates for estates valued over the exemption amount are reduced in stages. In 2002, values over $1 million will be taxed between 41 and 50%. These tax rates are reduced by one percent per year until 2007, at which point, estates valued over $2 million would be taxed at a flat 45% rate.

The law has a "quirk" in that it calls for the repeal of all estate taxes in the

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Mitchell's Satyr

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after 7 to 11 days), caterpillars feed upon the "host plant" until cooler temperatures and low sunlight levels induce the caterpillars into diapause (a period of suspended growth and dormancy). The caterpillars resume feeding the following spring and eventually metamorphose into adults in late June. A notable difference in the life cycle of the St. Francis satyr is that there are two broods per year. The adults of the first brood emerge in early to mid May and typically disappear by the end of the first week in June. The second flight period or brood runs from late July through mid August. The host plant has yet to be determined for the St. Francis satyr but it is very likely to be one or more species of *Carex* (sedge). St. Francis caterpillars that developed from the second brood probably over-winter in a similar fashion as in the northern subspecies. Pupation is generally two weeks in duration and ends with the emergence of the adult.

Due to such high habitat specificity, both subspecies have experienced alarming declines and extirpations from former localities throughout their respective ranges. The primary cause of these declines is centered upon wetland alteration, degradation, and destruction through the draining and conversion of these habitats to other forms of land use such as agriculture, roadways, and development. Secondary factors adversely affecting this species complex can be attributed to the removal and elimination of the elements that help to create suitable wetland habitat for the satyr such as widespread beaver eradication and control programs and the disruption of natural fire regimes. A third factor implicated as the cause for some localized extinctions (as reported for the New Jersey populations) is over-collection. The collective impacts from these factors have left the northern Mitchell's satyr with only about 13 populations in southern Michigan, and two in northern Indiana. In North Carolina, the St. Francis satyr likely exists as a single population consisting of a few small, localized colonies or subpopulations. Virginia also supports a single population of the St. Francis satyr. Such alarming losses throughout the butterflies' range resulted in the eventual listing of both subspecies as Federally Endangered.

From a natural history perspective, the enormity of finding a population of the Mitchell's satyr group in Alabama cannot be overstated as this discovery provides critical clues and additional insights to the plausible origin and historical distribution of this complex of butterflies. From a conservation perspective, these new discoveries are cause for great concern due to the endangerment of the Mitchell's and St. Francis satyrs. Unfortunately, the taxonomic identity of Alabama's population(s) has not been determined. Until this critical next step is completed, biologists and butterfly enthusiasts await in great anticipation to accurately put a name on a butterfly that has managed to escape discovery for so many years.

The discovery of Alabama's form of the Mitchell's satyr has provided yet another reminder of how amazingly diverse this great state is. It also tells us that many more secrets lie hidden among the varied habitats and natural communities of this gem of the Southeast.

References

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year 2010. However, the tax bill has a sunset provision, so that on January 1, 2011, the law is repealed and estate tax rules and rates go back to the 2001 regulations.

Abolishing the estate tax in 2010 will also remove the ability to step-up the basis of the property to its value at time of inheritance. The IRS has some proposed rules for adjusting some bases up to $1.3 million. However, it is predicted that Congress will change everything prior to 2010, so don't worry about it yet.

Forestry is a good investment. Landowners can earn much more growing trees than they can by putting cash in the bank. These tax changes will enhance these investments. The estate tax rules will help families keep their TREASURE Forests through generations to come.

For more information, check out the NATIONAL TIMBER TAX website at **www.timbertax.org.**

Wild Thangs

We need your favorite "wild" recipes for a story in an upcoming issue of *Alabama's TREASURED Forest* magazine. Whether it's wild game or fish, nuts or berries, or lotions and potions, we would like to have the entire "how-to" of things from the forest. Be sure to include clear instructions as well as your name, address, and telephone number.

Fax your recipes to Coleen Vansant at 256-775-6070 or e-mail to **vansantc@forestry.state.al.us.**